

MINUTES OF PENSION FUND COMMITTEE HELD ON 10 SEPTEMBER 2021

Present

Cheshire West and Chester: Cllrs Hogg (Chair), Gould, Lewis and Tonge
Cheshire East: Cllrs Bulman, Corcoran, Findlow and Stott
Halton: Cllr Dennett

Apologies

Warrington: Cllr Mitchell
Member Representative: Paul Matthews, GMB

In Attendance

Actuary: Hymans Robertson - Gemma Sefton
Investment Advisor: Mercer – Chris West
External Auditor: Grant Thornton – John Farrar
LGPS Central: Joanne Segars, Mike Weston and Patrick O’Hara (Item 8)
CW&C Officers: Mark Wynn, Maggie Sheppard, Heidi Catherall, Nick Jones, Steve Wilcock

PART A:

1. PROCEDURAL MATTERS

- 1.1 Declarations of Interest
- 1.2 Apologies were received from Councillor Mitchell and Paul Matthews.

2. MINUTES OF MEETINGS

- 2.1 The minutes of the Pension Fund Committee held on 4 June 2021 were reviewed, having previously been distributed and agreed by email. The Minutes of the Local Pension Board held on 1 June and 20 July 2021 were also reviewed.
- 2.2 Members noted the re-appointment of three members for three years commencing from 26 June 2021, as follows:
 - Peter Raynes – Chairman
 - Councillor Robert Bisset – Employer Representative
 - Geoff Wright – Member Representative
- 2.3 The minutes of the Pensions Consultative Forum held on 25 June were also reviewed.



3. **STANDING ITEMS**

Employer Changes

- 3.1 The Committee received a report detailing employers who had joined or exited the Fund over the period 1 June to 31 August 2021 (inclusive).

The Committee noted the changes to employers during the reporting period

Compliance Update

- 3.2 The Committee received the Compliance Update including a summary of the breaches log 1 April to 31 August 2021. Twenty seven occurred in the period, all of which required no further action following investigation.

The Committee noted the cumulative Breaches Log for 1 April to 31 August 2021.

Business Plan 2021-22

- 3.3 The Committee were presented with the performance reporting dashboard which summarised progress in delivering the 2021-22 Action Plan.
- 3.4 Committee felt that the new dashboard provided the right mix of enough information to be able to assess progress and an appropriate amount of detail.
- 3.5 The Committee also received the forecast outturn for 2021-22.

The Committee noted:

- a) Progress in delivering the Action Plan and the forecast outturn.

Regulatory Update

- 3.6 Officers verbally updated that firm dates are still awaited on the launch of expected consultations relating to investment guidance, exit cap/exit reform, and climate risk reporting in the LGPS. Government departments are still indicating these consultations will be launched by the end of 2021.
- 3.7 Committee was also briefed on the Pension Regulator's recent interim response to consultation feedback on the draft Combined Code of Practice. The interim response suggests the new combined Code will not now come into effect before Summer 2022.

4. **AUDITED ANNUAL REPORT INCLUDING STATEMENT OF ACCOUNTS 2020-21**

- 4.1 The Committee received the Fund's Annual Report for 2020-21 including the audited Statement of Accounts. Officers explained that the Accounts presented contained a small number of changes to the pre-audit Accounts which the Committee had reviewed on 4th June. The changes were largely presentational and the figures on the face of the primary statements (the Fund Account and Net Asset Statement) remained unchanged.



- 4.2 Grant Thornton presented their audit findings report which concluded that, subject to the satisfactory completion of all outstanding audit work, they anticipated issuing an unqualified audit opinion i.e. one that concluded the accounts do give a true and fair view of the financial position of the Fund.
- 4.3 The risks assessed and work done to date to arrive at this interim judgement was explained. All remaining work should be complete by the end of September when Grant Thornton intended to present an updated Audit Findings report to the Cheshire West and Chester Council Audit and Governance Committee. The Committee thanked all those involved in the process of producing and auditing the Annual Report and Accounts.

The Committee:

- a) Received the audit findings report from Grant Thornton;
- b) Received the Cheshire Pension Fund Annual Report including the Statement of Accounts for the year ending 31 March 2021 and the Local Pension Board Annual Report;
- c) Requested that Cheshire West and Chester Audit and Governance Committee approve the Cheshire Pension Fund Statement of Accounts for 2020-21 and sign the Letter of Representation.

5. TRIENNIAL VALUATION PLANNING

- 5.1 To assist Members, the Committee received a high-level timetable for the 2022 triennial valuation which highlighted key points of Committee involvement. Officers noted that the timetable would be reviewed in the light of the outcome of the ongoing actuarial services tender.

The Committee: Noted the proposed valuation timetable.

6. ANY OTHER BUSINESS

- 6.1 No matters were raised.
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PART B

The Committee resolved that:

The details of the following items remain confidential on the grounds they/it involve the likely disclosure of exempt information as defined by Paragraph 3 Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) and that the public interest would not be served in publishing the information. A non-confidential summary of the items discussed is provided for information.

7. PROCEDURAL MATTERS

7.1 The Committee noted the draft Minutes from the Investment Sub-Committee meeting on 27 August 2021 which had been circulated via email.

8. LGPS CENTRAL AND POOLING UPDATE

8.1 The Committee received a presentation from LGPS Central Ltd, the investment pooling provider. The presentation included a company update, performance of current investment products and plans for future product launches. The company also described their integrated and proactive Responsible Investment approach with a summary of recent engagement activity.

9. INVESTMENT PORTFOLIO – EQUITY PORTFOLIO CARBON FOOTPRINT

9.1 The Committee received a report proposing a change to one of the Fund's existing passively managed equity investments. The proposal would reduce that investment's carbon footprint.

9.2 The Committee were updated on significant progress in meeting the target in the Climate Stewardship Plan of decarbonising the Fund's equity portfolio to 50% below that of the general market as represented by the FTSE All World Index. The current equity portfolio carbon footprint is 45% below that of the general market

9.3 The proposed change to the passive equity fund would move the equity portfolio carbon footprint to 51% below market. If implemented immediately, the Fund would deliver against its climate stewardship target some two years ahead of schedule.

9.4 The implications of the proposed change on investment performance had been tested and results suggested there were few grounds to suggest any meaningful impact on long term performance. Similarly, an analysis of sector, factor and geographical exposures from the proposed change did not produce any undue risks. The cost implications were also reviewed, and the Fund's strategic investment advisors updated the Committee on their views.

The Committee: Endorsed the recommendation that the passive equity index fund under review be amended to reduce its carbon target and to enable the early delivery of the Fund's key total equity portfolio decarbonisation target.



10. INVESTMENT PORTFOLIO – INVESTMENT STRATEGY STATEMENT REVIEW

- 10.1 The Committee received a report setting out the proposed timetable for reviewing the Fund's Investment Strategy Statement and Responsible Investment policy and recommending a diversification in the Fund's low risk fixed income and illiquid assets allocation by the addition of private debt.
- 10.2 The characteristics of private debt, namely low risk, steady and reliable cash flows were explored. The background and fundamentals of the asset class were explained and the complimentary fit to the Fund's existing strategic asset allocation described.
- 10.3 The report set out the pooled private debt investment offering from LGPS Central Ltd (LGPSC) and explained that investors could choose between different risk/return sleeves. Further details of the proposed sleeves, potential underlying manager credentials and costs were presented by the Fund's investment advisor.

The Committee:

- a) Endorsed that an allocation of 5% (some £340m) of Fund assets be made to the LGPSC Private Debt Stable Return investment sleeve. Funding of this allocation to come from equivalent redemptions from the Fund's UK Government gilts portfolio
- b) Endorsed that in principle an allocation of 2.5% (some £170m) of Fund assets be made to the LGPSC Private Debt Lower Return sleeve. Funding of this allocation to come from reducing the Fund's allocation to property from 10% to 7.5%.
- c) Noted that a decision is likely to be required by the end of November 2021 and hence the Committee authorised Officers, with advice from Mercer, to action the appropriate investments, subject to receipt of final documentation from LGPSC and that any significant concerns regarding the suitability or capabilities of underlying Managers selected by LGPSC will be reported electronically to the Committee before a final allocation is made.
- d) Endorsed that officers be authorised to restructure the Fund's remaining 25% allocation to UK gilts to maintain current levels of inflation protection.

11. INVESTMENT CONSULTANCY CONTRACT ARRANGEMENTS

- 11.1 The Committee considered the contractual arrangements for the Fund's Investment Consultancy services.

The Committee: endorsed an extension to the Fund's Investment Consultancy services contract, as permitted within the provisions of the existing contract, for 12 months from 1 October 2021 to 30 September 2022.

12. AOB

- 12.1 Officers updated on the final process steps to be taken in the actuarial services re-tender.

